GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2298
ANSWERED ON:10.03.2006
AMENDMENT TO BANKING REGULATION ACT
Patil Shri Balasaheb Vikhe

Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to amend the Banking Regulation Act,1949 to enhance capacity to ensure sound governance relevant to the banks consistent with global best practices;

(b) if so, the details thereof; and

(c) the time by when Banking Regulation Act is likely to be amended?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (c):- The Banking Reguiation (Amendment) Bill, 2005 for amending the Banking Regulation Act, 1949 has been introduced in the Lok Sabha on May 13, 2005. The proposed amendments aim to , strengthen regulatory power of RBI. Briefly, the Bill seeks to carry out the following amendments in the Banking Regulation Act, 1949.

(i) Amendment of Section 5(a) of the Act, which defines the expression `approved securities I as those securities, which are issued by the Central Government or any State Government or such other securities as may be specified by the RBI from time to time .

(ii) Amendment of Section 12 of the Act to enable banking companies to issue preference shares subject to regulatory guidelines by the RBI. The holders of preference shares issued by the banking company shall not be entitled to exercise voting right as specified in clause (b) of sub-section (2) of section 87 of the Companies Act, 1956.

(iii) Amendment to remove the restrictions on voting right under subsection (2) of section 12 concurrently with the insertion of a new section 12B providing for RBI`s prior approval for acquisition of 5% or more of shares or voting rights in a banking company by any person and empowering RBI, to impose such conditions as it deems fit in this regard in order to satisfy itself that the acquisition of shares of a banking company is by a person considered fit and proper and that the applicant continues to be fit and proper to hold the shares or voting rights above the specified limit.

(iv) Amendment of Section 20 to empower the Reserve Bank to grant exemption to banking companies from the provisions of Section 20 in appropriate cases.

(v) Amendment to section 24 with a view to empower RBI to specify statutory liquidity ratio without any floor.

(vi) Addition of a new section 29 A to empower RBI to call for information and returns from the associate enterprises of banking companies and also inspect them, if necessary.

(vii) Addition of a new Section 36 ACA to empower RBI to supercede the Board of Directors of a banking company and appoint an administrator to manage the bank till alternate arrangements are made.

(viii) Amendment to section 51 for extending the application of new section 29 A to SBI, Subsidiary banks, nationalized banks and regional rural banks.

(ix) Amendment of the provisions of Section 56 of the Act to provide for primary cooperative societies to carry on the business of banking only after oQtaining a licence from RBI.

(x) To empower Reserve Bank to order a special audit of co-operative banks in public interest.